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Red China and the West

— BY GERALD GRIFFIN —

A paper credited to the Central Intelligence Agency—that's right, the CIA, standing out in the open without a cover—brings up the rear of the two-volume study, called "An Economic Profile of Mainland China," issued last week by the Joint Economic Committee of Congress. The entire study points up the fact that a great deal is known—and can be accurately deduced—about China, in spite of the secrecy and mystery which shroud some of its activities; the study will be valuable to everyone who wants to know as much as possible about the country.

The CIA paper is especially interesting. It shows the CIA carrying out an intelligence function which it can—and does—perform superbly. This is the painstaking collection and assembly of economic and financial data which help American officials to make informed decisions on foreign policy.

In this instance the paper deals with Communist China's balance of payments during the fifteen years from 1950 to 1965, a subject which may seem difficult to rank-and-file citizens but which directly affects Chinese foreign policy, including its aid to North Vietnam and other Communist powers. It involves the complex story of China's efforts to export agricultural products in order to pay for the massive purchases of wheat it has needed to ward off famine, and of the way in which its trade and credit relations with Russia tapered off and were replaced by trade and credits supplied by nations of the free world.

The paper thus invites speculation as to the effects of Mao's fading cultural revolution on China's economy and foreign trade, and it underscores the desperate emphasis being given to the "spring plowing"—that is, to getting the farm work started, after a winter of street demonstrations, in what may well be a critical year for Chinese agriculture and hence for its trade. Summing up, the paper says:

"In its earlier attempts to achieve rapid industrialization, Communist China depended heavily on imports of Soviet capital equipment, technical aid, and industrial materials, a sizable part of which the U.S.S.R. supplied on long-term credit. If the Chinese are to resume a rapid pace of industrial growth, they again will have to depend on imports.

"This time, however, because of the deepening Sino-Soviet rift, it is unlikely that they will seek assistance from the U.S.S.R. Instead they will have to turn to the industrial West and Japan, where purchases must be paid for largely in hard currency. China's capacity to import capital plant needed for industrial development during 1966-1970 depends on (1) its capability to expand exports, especially to hard-currency areas; (2) its success in checking the drain of foreign exchange caused by large imports of grain, and (3) its willingness to seek sizable medium and long-term credits in the free world.

"Although the Chinese will attempt to promote exports of new products, they probably will continue to rely largely on their traditional agricultural products to expand export earnings."

Because of its rising population, China will continue to find it hard to expand its agricultural exports. Moreover, it will need during the next several years to import an average of at least 5 million tons of grain a year, at an annual cost of more than \$300 million in hard currency, the paper estimates. This equals about 30 per cent of Red China's earnings from the free world in 1964.

China has not sought long-term credits from the non-Communist nations thus far. The CIA paper suggests, however, that if it did so "there is little doubt that Western European countries and possibly Japan, in competition with each other, would make such credits available."

Red China, of course, has a foreign aid program of its own. Since 1954, the paper estimates, 60 per cent of its foreign aid has gone to North Korea and North Vietnam together, and about 30 per cent to other Communist countries, and a little more than 10 per cent to free world nations. It is expected to continue to focus its foreign aid on Communist countries "inasmuch as these nations are the main areas

In which China and the U.S.S.R. are competing for influence."

China's nuclear development program and its stepped-up military construction related to the war in Vietnam are expected to continue to have a higher priority than investment in industries which produce goods for export or substitutes for exports. But barring a sharp escalation of the war, China is expected to maintain a limited capacity to export goods and to absorb capital from abroad.

TRANSMITTAL SLIP		DATE 14 MAR 1967	
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